

General Fund Revenue Transfers and Appropriation Shifts

ISSUE

This **Issue Review** examines how non-General Fund revenue sources have been used to help balance the General Fund budget over the last ten years. The report includes examination of non-General Fund appropriations to fund agency operations and programs traditionally funded from the General Fund. This document also reviews revenues that have been shifted from a non-General Fund source to the General Fund.

BACKGROUND

The State's General Fund revenue budget consists largely of personal income taxes and sales taxes. These two sources comprise nearly 80.0% of the total revenues deposited in the General Fund. The remaining 20.0% comes from a variety of other taxes and fees including: corporate income tax, cigarette and tobacco taxes, insurance premium tax, inheritance tax, beer tax, liquor profits, judicial fines, and a host of other revenue sources.

In addition to the State's General Fund, other sources of revenue have been enacted and dedicated to various funds that are not part of the General Fund. Some of the significant non-General Fund sources include: the Road Use Tax Fund, Rebuild Iowa Infrastructure Fund, Senior Living Trust Fund, Health Care Trust Fund, and the Property Tax Credit Fund. The revenues deposited in these funds have designated purposes specified in the Iowa Code. However, unless the expenditure of these non-General fund sources are constitutionally restricted (i.e., the Road Use Tax Fund), the General Assembly has the authority to change the designated uses of the funds.

The General Assembly and Governor have routinely used non-General Fund sources to help balance the General Fund budget. This practice increased significantly in FY 2002 in order to respond to sudden declines in General Fund tax revenue brought on by the recession of 2001.

It is important to consider the following points when reading this **Issue Review**. The General Assembly, with the Governor's approval, sets the fiscal policies of the State and has the authority to do the following:

- Raise and lower taxes, fees, and fines.
- Create new taxes, fees, and fines to finance government services and programs.
- Set priorities and conditions regarding how taxes, fees, and fines can be spent, unless the revenue source is constitutionally restricted.
- Create new funds, separate from the General Fund, and require the deposit of taxes, fees, and fines in these funds. They can earmark these funding sources for specific uses.

- Change priorities established by a prior General Assembly regarding how funds are used either on a temporary or permanent basis.

REVENUE TRANSFERS

The bulk of the revenue transfers to the General Fund were made between FY 2002 and FY 2004 in response to the budget shortfall at that time. In FY 2002, a total of \$282.2 million in revenue was transferred to the General Fund over two legislative sessions. The transfers were in response to a continuous drop in General Fund revenue estimates for FY 2002 brought on by the 2001 recession. The initial estimate of the Revenue Estimating Conference (REC) for FY 2002 was set at \$5.004 billion in October 2000. By May of 2002, the REC established their final estimate for FY 2002 at \$4.397 billion, a \$607.0 million (12.1%) drop from the initial estimate.

The State faced a similar situation in FY 2003, but to a lesser extent. For FY 2003, the initial REC estimate was set at \$4.753 billion in October 2001. In April 2003, the FY 2003 estimate was reduced to \$4.250 billion, a \$233.0 million (4.9%) decline. A total of \$141.8 million was transferred from non-General Fund sources to the General Fund from other sources in FY 2003. In FY 2004, General Fund tax revenues began to stabilize and rebound; however, \$85.4 million in revenue transfers were enacted in the process of balancing the General Fund budget.

Since FY 2004, revenue transfers have been relatively minor. In FY 2010 and FY 2011, there were transfers of certain revenues from the General Fund to non-General Fund sources, thus reducing General Fund revenues. In FY 2010, the Department of Commerce Revolving Fund was created and the fees that are assessed by the Divisions of Banking, Insurance, Credit Union, and Utilities were directed to the new Revolving Fund. These four divisions are now entirely funded through the fees deposited in the Revolving Fund. This amounted to a \$26.2 million revenue shift in FY 2010 and a \$27.0 million revenue shift in FY 2011.

In FY 2011, the Gaming Enforcement Fund was created to fund the cost of enforcement at gaming establishments. The Gaming Enforcement Fund receives payments directly from the gaming establishments to fund the salaries and support costs of the Gaming Enforcement officers of the Division of Criminal Investigation of the Department of Public Safety.

The transfer of revenues to the Department of Commerce Revolving Fund and the Gaming Enforcement Fund were revenue neutral to the State. The only significant transfer to the General Fund over the last two fiscal years was a \$65.0 million transfer from the Cash Reserve Fund in FY 2010 that was used to help balance the budget.

The following table shows the revenues transferred to the General Fund since FY 2002. The majority of the transfers have come from the Cash Reserve Fund, the Economic Emergency Fund, the Endowment for Iowa's Health Account (tobacco settlement proceeds), and the Rebuild Iowa Infrastructure Fund.

Revenue Transfers to the General Fund										
(Dollars in Millions)										
	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Area Ed Agency (AEA) Balance Transfer	\$ 0.0	\$ 0.0	\$ 10.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Cash Reserve Fund	90.0	45.8	0.0	0.0	0.0	0.0	0.0	0.0	65.0	0.0
Commerce Revolving Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-26.2	-27.0
Economic Emergency Fund	105.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Endowment for Iowa's Health Account	22.0	0.0	20.0	0.0	0.0	0.0	0.0	21.9	0.0	0.0
Environment First Fund	7.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gaming Enforcement Revolving Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-8.9
Healthy Iowans Tobacco Trust	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prison Infrastructure Fund	6.2	6.5	6.5	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Rebuild Iowa Infrastructure Fund	9.8	15.5	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve Fund Interest	15.6	5.2	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
School Infrastructure Fund	0.0	22.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unclaimed Property (Demutualization)	0.0	0.0	26.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Underground Storage Tank Fund	0.0	10.0	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0
Other	20.1	18.4	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	\$ 282.2	\$ 141.8	\$ 85.4	\$ 6.5	\$ 0.0	\$ 0.0	\$ 3.0	\$ 21.9	\$ 38.8	\$ -35.9

APPROPRIATION SHIFTS

The LSA tracks appropriations routinely funded from the General Fund that have been appropriated from a non-General Fund source for the purpose of helping to balance the General Fund budget. Many of these non-General Fund sources have relatively stable ongoing revenue sources such as the Cash Reserve Fund, the Rebuild Iowa Infrastructure Fund, the Health Care Trust Fund, and the Underground Storage Tank Fund.

Other sources have a revenue stream that is time-limited in that the revenue directed to the fund was only available for a few years, such as the Senior Living Trust Fund, the Federal Recovery and Reinvestment Fund (Federal Stimulus Funds), Endowment for Iowa's Health Account, and the IowaCare Account.

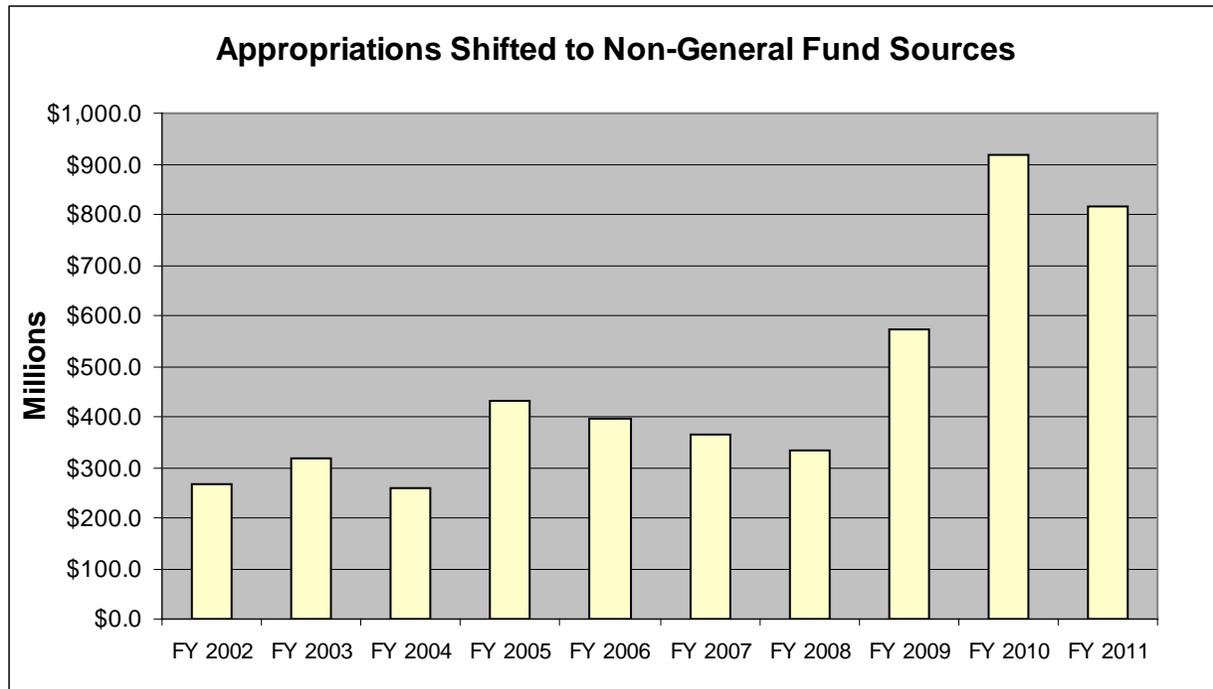
General criteria used in this **Review** in determining shifted appropriations include the following:

- The program that received the appropriation is operational in nature or an ongoing grant program.
- The program was funded entirely from the General Fund on an ongoing basis prior to funding for the program being shifted to a non-General Fund source.

All of the non-General Fund sources have statutory requirements or specific designated uses in the Iowa Code. As mentioned previously, the General Assembly has the authority to change the designated uses either permanently or temporarily as long as the revenue source is not constitutionally restricted. The benefit of using these non-General Fund sources is that during difficult budget years, they can be used to help balance the budget while maintaining critical government services without requiring a tax increase. The downside is that this practice can cause reliance on non-General Fund sources to fund recurring costs. If the revenues that fund these non-General Fund sources become depleted, difficulties will result in balancing the budget in subsequent years.

The following chart shows total appropriations that have been shifted from the General Fund to other sources over the last ten years. There was a significant increase in appropriation shifts in

FY 2010 and FY 2011, largely due to the receipt of federal stimulus funds and the use of the State's Cash Reserve Fund.



The table on the following page provides a summarized breakdown of the appropriation shifts by funding source from FY 2002 to FY 2011. Of the total \$918.8 million in appropriation shifts in FY 2010, \$634.5 million (69.1%) was associated with federal stimulus funds. In FY 2011, General Fund appropriations shifted to non-General Fund sources totaled \$817.4 million, including \$302.1 million (37.0%) shifted to federal stimulus funds and \$250.8 million (30.7%) to the Cash Reserve Fund.

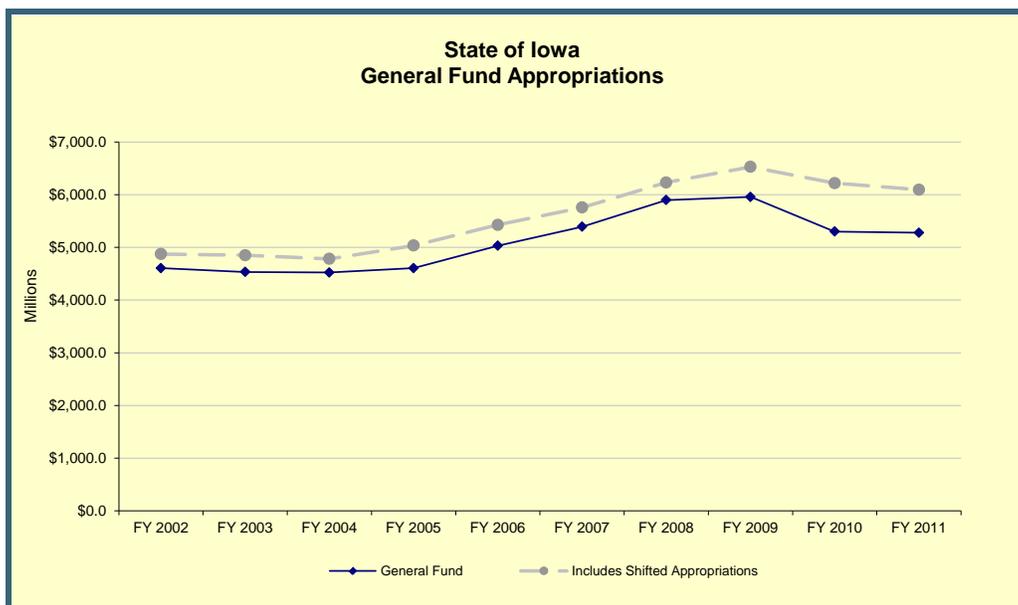
Other funding sources that have been used over the last ten years include:

- **Senior Living Trust Fund** – This Fund received the majority of its funding from a portion of the General Fund surplus of the previous fiscal year. The Fund was largely used for funding a portion of the State's Medicaid costs.
- **Rebuild Iowa Infrastructure Fund (RIIF)** – The RIIF was created in FY 1995 for the purpose of funding vertical infrastructure projects. The Fund receives the majority of its revenue from three sources: the State wagering taxes and casino licensing fees, unsecuritized tobacco settlement payments, and interest earnings from the Cash Reserve and Economic Emergency Funds.
- **Property Tax Credit Fund** – This Fund was created in FY 2006, and also received its funding from the General Fund surplus of the previous fiscal year. This Fund was used to appropriate funding for the Homestead Tax Credit, Agricultural and Family Farm Tax Credit, the Elderly and Disabled Tax Credit, and the Military Service Tax Credit.

- Healthy Iowans Tobacco Trust Fund (HITT)** – The HITT was created in FY 2002 and received funding from the tobacco settlement payments. The Fund was used largely for funding health care related programs with the majority of the appropriations going to Medicaid. This Fund was repealed at the end of FY 2009, and funding for most of the programs was returned to the General Fund in FY 2010.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Federal Stimulus Funds	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 168.6	\$ 634.5	\$ 302.1
Senior Living Trust Fund	79.4	82.8	140.7	143.4	108.7	74.1	74.6	121.6	48.9	47.6
Property Tax Credit Fund	0.0	0.0	0.0	0.0	159.7	159.9	131.9	115.5	3.8	0.0
Cash Reserve Fund	0.0	1.8	0.0	159.7	0.0	0.0	0.0	0.0	80.3	250.8
Healthy Iowans Tobacco Trust	44.2	52.8	51.4	51.8	51.7	53.7	52.9	17.7	0.0	0.0
Rebuild Iowa Infrastructure Fund	0.0	5.9	1.3	1.3	0.5	16.3	12.3	101.4	65.5	76.0
IowaCare Account	0.0	0.0	0.0	0.0	53.2	53.2	53.2	36.3	27.3	27.3
Restricted Capital Funds Account	7.2	29.0	29.1	28.9	15.8	0.0	0.0	0.0	0.0	0.0
Hospital Trust Fund	7.0	19.0	29.0	37.5	0.0	0.0	0.0	0.0	0.0	0.0
Endowment for Iowa's Health Account	42.5	36.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environment First Fund	10.1	3.5	7.5	7.5	7.5	7.5	9.5	9.5	9.5	3.5
Economic Emergency Fund	44.9	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Underground Storage Tank Program	18.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.7
Commerce Revolving Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.2	27.0
Regents Demutualization	0.0	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Bonds Capitals Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0	13.0
Hospital Health Care Access Trust Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.9
Human Services Reinvestment Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.8	0.0
Insurance Premium Tax	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gaming Enforcement Revolving Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.9
Other	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.6
Total	\$ 265.8	\$ 316.6	\$ 259.0	\$ 430.1	\$ 397.1	\$ 364.7	\$ 334.4	\$ 570.6	\$ 918.8	\$ 817.4

The following chart compares the total enacted General Fund appropriations over the last ten fiscal years to the combined total of General Fund appropriations plus appropriations shifted to other sources. On average, shifted appropriations have totaled 9.1% of the total General Fund appropriations. However, over the last three fiscal years the shifted appropriations have averaged 13.9% of General Fund appropriations.



APPROPRIATION SHIFTS BY PROGRAM

The following table provides a summary of the programs that are typically funded through the General Fund that have received appropriations from non-General Fund sources. The majority of these appropriations have funded Medicaid, education programs, Regents institutions, and property tax credits.

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Medicaid	\$ 120.5	\$ 133.6	\$ 196.6	\$ 205.1	\$ 134.9	\$ 100.2	\$ 100.2	\$ 225.7	\$ 288.5	\$ 427.3
Education Aid ¹	84.9	68.9	0.0	0.0	0.0	0.0	0.0	40.0	215.7	64.5
Regents Institutions ²	0.6	52.3	10.6	10.4	37.6	37.6	37.6	51.6	131.9	61.0
Property Tax Credits ³	0.4	0.0	0.0	159.7	159.7	159.9	131.9	115.5	58.5	54.7
Other	59.4	61.7	51.8	54.8	64.9	67.0	64.7	137.8	224.2	209.8
Total	\$ 265.8	\$ 316.5	\$ 258.9	\$ 430.0	\$ 397.1	\$ 364.7	\$ 334.4	\$ 570.5	\$ 918.8	\$ 817.3

¹ Includes School Foundation Aid, Instructional Support, Preschool Program, and Student Achievement/Teacher Quality funding.
² Includes Regents universities, University of Iowa Hospitals and Clinics, and Tuition Replacement.
³ Includes Homestead, Agricultural and Family Farm, Elderly and Disabled, and Military Service Tax Credits.

The majority of the shifted appropriations have provided funding for the State's Medicaid Program. Since FY 2002, Medicaid has received non-General Fund appropriations ranging from \$100.2 million to \$427.3 million per year. During the last three fiscal years, the amount for Medicaid has increased substantially as a result of the federal stimulus funds approved by Congress.

State programs that provide aid to school districts have also had a portion of their funding shifted to non-General Fund sources. These include State Foundation Aid, Instructional Support, the Preschool Program, and the Student Achievement/Teacher Quality Program. After receiving non-General Fund appropriations in FY 2002 and FY 2003, there was a five-year period when these programs were funded entirely from the General Fund. The General Assembly appropriated \$40.0 million from non-General Fund sources for education programs in FY 2009, \$215.7 million in FY 2010, and \$64.5 million in FY 2011. During the last three fiscal years, the majority of these funds were appropriated from federal stimulus funds for State Foundation Aid.

The Board of Regents received non-General Fund appropriations for Tuition Replacement (funding to reimburse the universities for payment of debt service on Academic Revenue Bonds), the University of Iowa Hospitals and Clinics, and for general operational costs for the universities. The non-General Fund appropriations increased significantly in FY 2010 due to an \$80.3 million appropriation from the federal stimulus funds to replace a reduction in the Regents institutions General Fund appropriations.

Funding for the Homestead Property Tax Credit, the Agricultural and Family Farm Tax Credit, the Elderly and Disabled Tax Credit, and the Military Service Tax Credit are standing appropriations from the General Fund. In FY 2005, the General Assembly began funding the property tax credits from non-General Fund sources, primarily the Cash Reserve Fund and the ending balance from the General Fund surplus of the previous fiscal year. In FY 2008, the General Assembly began funding a portion of the property tax credits from the General Fund,

thus reducing the amount appropriated from the non-General Fund sources. In FY 2011, the amount appropriated from non-General Fund sources was reduced to \$54.7 million.

FUNDING IMPLICATIONS FOR FY 2012

It is likely that FY 2012 will be another difficult year for balancing the General Fund budget. The Legislative Services Agency (LSA) is projecting a budget gap of \$291.6 million. The projection is based on the December Revenue Estimating Conference (REC) estimate of \$6.031 billion for FY 2012 and the LSA's estimates for FY 2012 built-in and anticipated expenditure increases totaling \$1.301 billion. All estimates are based on current law. The estimates do not include the impact of potential federal tax law changes that are currently being considered by Congress.

Funding will again be available from several non-General Fund sources to help balance the budget in FY 2012 should the General Assembly decide to use them. The most significant of these sources will be the State's two reserve funds. The Cash Reserve Fund and the Economic Emergency Fund are estimated to have a combined balance of \$603.1 million in FY 2012.

Difficult decisions will still need to be made due to the unavailability of federal stimulus funds in FY 2012. The General Assembly utilized \$302.1 million in federal stimulus funds in FY 2011 in place of General Fund appropriations and this funding will not be available in FY 2012. Of this \$302.1 million, \$190.2 million was appropriated for Medicaid, \$47.9 million for state aid to schools, and the remaining \$63.9 million for Department of Human Services institutions and assistance programs. Additionally, funding from the Senior Living Trust Fund, the Revenue Bonds Capitals Fund II, and the School Infrastructure Fund will not be available in FY 2012. A total of \$68.1 million was appropriated from these three sources in place of General Fund appropriations during FY 2011.

Funding for several programs will continue to be provided from non-General Fund sources in FY 2012, including the four divisions of the Department of Commerce, University of Iowa Hospitals and Clinics, and the DCI Gaming Officers as new funding mechanisms have been established to fund these programs on an annual basis.

STAFF CONTACT: David Reynolds (515-281-6934) david.reynolds@legis.state.ia.us